1995 Annual Report

Mera Petroleums Inc.

Choosing reachable goals... Achieving peak performance

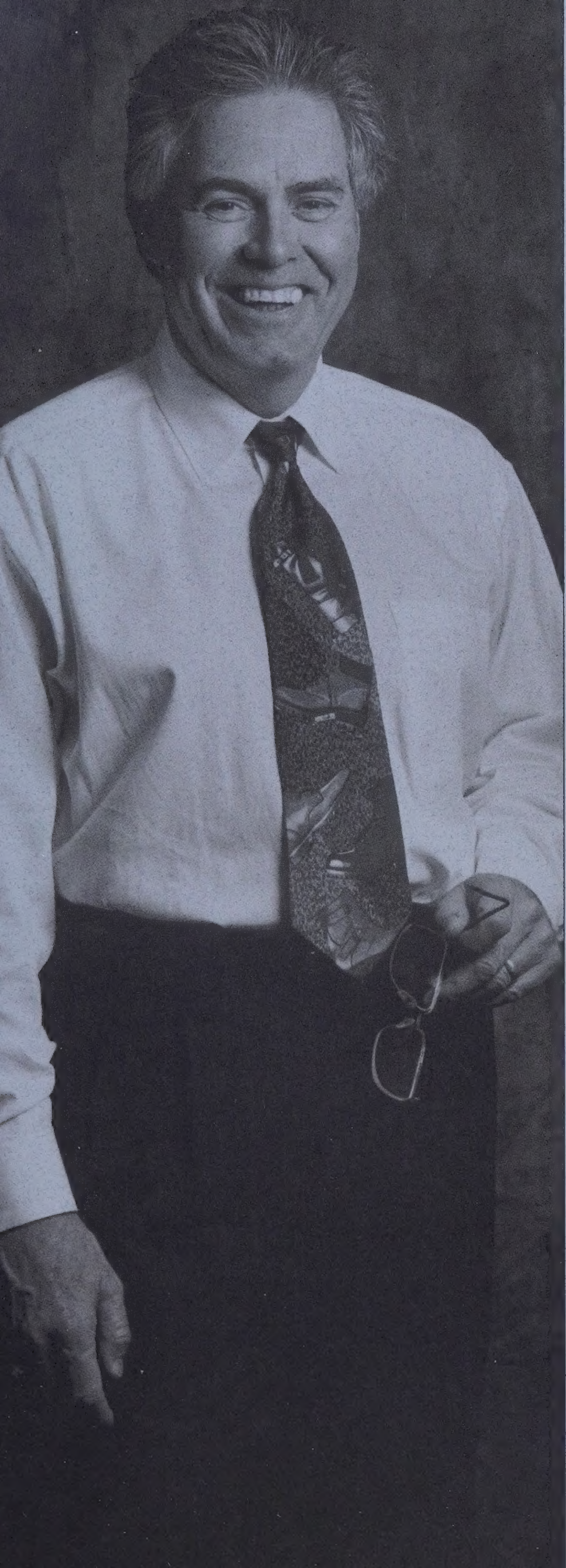
Mera Petroleums Inc. is:

- An oil and gas exploration and development company based in Calgary, Alberta
- Building a solid production base by purchasing properties with a long life and reasonable cash flow
- Working towards a ratio of 60% gas and 40% oil by developing new and existing gas prospects
- Enhancing shareholder value by developing and farming out higher risk, longer term projects
- Achieving its objectives, while remaining debt free
- Listed on the Alberta Stock Exchange under the symbol **MPR**

Year At A Glance

- Two wells drilled and completed in March of 1996 add significant gas reserves to East Darwin prospect and completely change the complexion of your company
- Mera dramatically increases its land holdings in Darwin by 427% (from 5,120 to 27,000 acres)
- Mera raises $315,000 by selling 900,000 flow through shares at $0.35/share through a private placement in March of 96
- Mera increases the depth of its board by the addition of Donald R. Getty, former Alberta Premier and Energy Minister
- Mera traded at a high of $0.45 per share
- Mera remains debt free

Cover photo: Mera Peak in the Himalayas of Nepal – south of Mt. Everest



Report To Shareholders

1995 In Review

Nineteen ninety-five was an exciting growth year for Mera Petroleums Inc. I am pleased to report the drilling of two successful wells in the Darwin Field, which proved up significant reserves. An external* engineering evaluation says this discovery has increased your company's asset value to $1.7 million in April, 1996. And that's just the beginning of the good news. I expect future drilling to further enhance these values in the coming fiscal year.

Asset values have appreciated, not only due to the drilling of the two outstanding wells in the Darwin Field – one at no cost to Mera – but because we expanded your company's interest in the field from 5,120 to 27,000 acres. Through negotiations with other Darwin stakeholders Mera maximized its opportunities over a much larger area, and more importantly, decreased its exploration risk.

Mera was able to participate in the initial drilling through a $315,000 private placement of flow-through shares at $0.35 each completed in April 1996. A further $2.1 million will be needed by next drilling season to complete these wells and drill at least 10 more. Production is expected to commence

**Using escalated prices and costs and discounting at 15% with probable reserves reduced by 50% to account for risk*

Robert D. (Bob) McLeay, President and Chief Executive Officer

Don Getty

Director

by the spring of 1997, just in time for a period of improved gas prices.

Getty On Board

In preparation for our next period of growth I am pleased to report the addition of Don Getty to our Board of Directors. The former Alberta Premier and Alberta Energy Minister's business acumen and vast contacts within the oil and gas industry will prove invaluable in helping Mera expand. He has served as chairman of the board of IPSCO and on the board of directors of 11 corporations, including Nova (an Alberta Corporation), Novacor Chemicals Ltd. and the Royal Bank of Canada. Your new director has also been president, CEO and chairman of three of his own energy-related companies.

Mr. Getty replaces Bill Lawrence, who resigned his directorship to move to the Island of Cyprus in December, 1995. We would like to thank Bill for his wisdom and support throughout Mera's infancy.

Merger

In the interests of expanding Mera's field of opportunities, management invested considerable time and energy in the investigation of suitable merger partners in 1995. However, after careful consideration of the impact of Darwin, and an improvement in the capital markets for junior companies, your board has decided to pursue growth through the development of its existing assets.

Don Conn

Director

Revenues from petroleum and natural gas sales decreased in 1995 due to poor gas prices. Revenues for a 12-month period in 1995 were $234,764, compared with $180,265 for eight months in 1994. Production remained stable at approximately 50 BOEPD.

Stocks Up

In light of recent developments the stock market has become increasingly interested in Mera. Throughout the entire 1995 year some 126,000 shares traded hands for a value of $18,472. Another 463,000 shares were traded, at a value of $138,795, between January 1 and late April 1996. This level of activity pushed your company's shares to a high of $0.45 on February 5, 1996.

1996 Outlook

As we enter the 1996/97 year, Mera is positioned for an even more stimulating period of growth. Production and revenues are expected to increase dramatically to 250 BOEPD as we bring Darwin on stream next spring. That's five times our current production! Further in-house geological prospects will be evaluated for prospective development through the use of sophisticated geological software and additional expertise.

Management continues to negotiate the development of a northern Columbia geological and geophysical prospect, which your president worked on for the Columbian government in 1989. This South

left to right:

Joanne Linnington, Administrative Assistant

Sharon Pearce-McLeay, Public Relations Consultant

Reg Pitt, P.Eng., Engineering Consultant

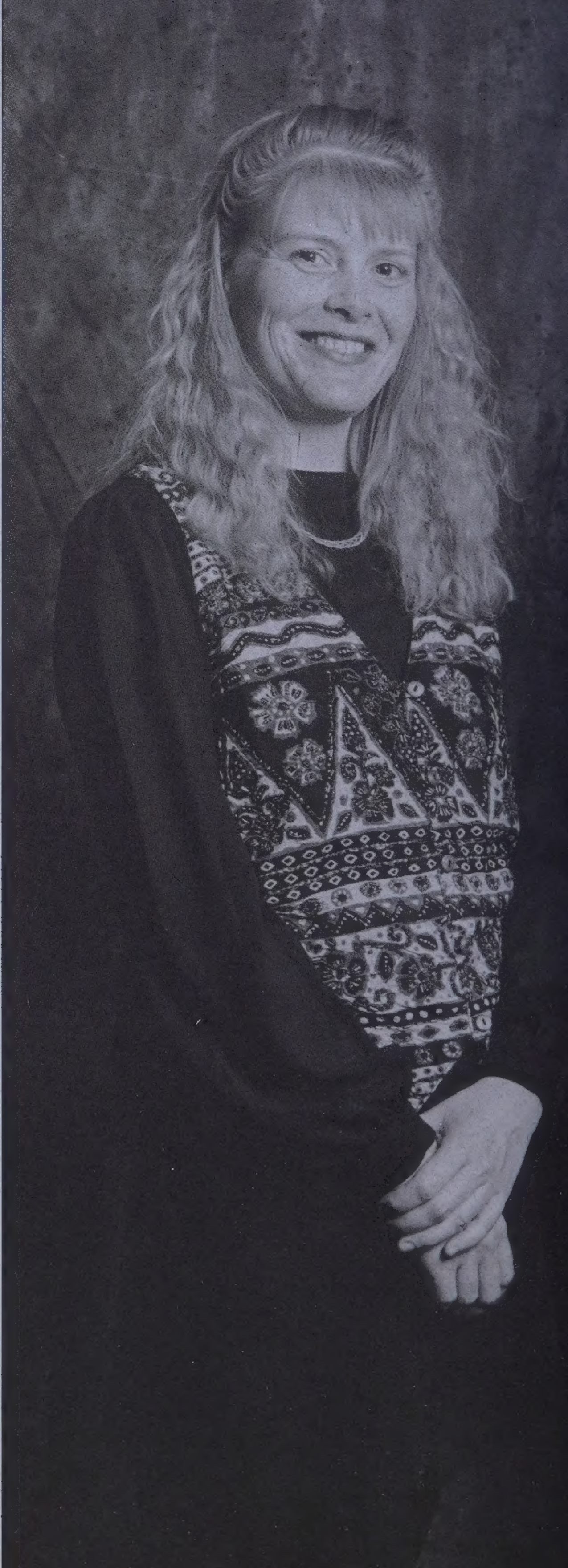
American venture may be too ambitious a project for Mera to administer – considerable infrastructure is needed to bring this play on stream – but we believe your company can benefit from farming out this prospect.

In short, the Mera you see today is quite different from the Mera you saw last year and different again from the company that will emerge in 1997. In our next annual report look for a larger, more profitable and vital oil and gas development company. But, as always, expect us to operate "debt-free" to maximize shareholder value.

As we continue to pursue *Reachable Goals* and *Achieve Peak Performance*, I would like to thank our shareholders and directors for their continuing support and patience.

Robert D. (Bob) Mcleay, President
and Chief Executive Officer

April 30, 1996



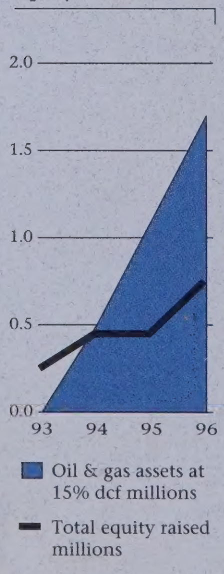
Properties and Operations Review

Darwin

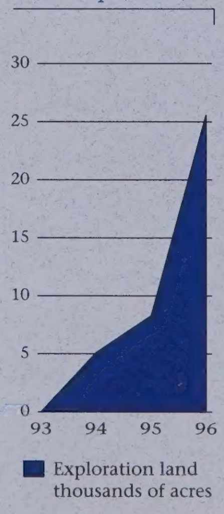
Mera's reserves made a dramatic jump with the drilling of three wells in the Darwin Field in March, 1996. Two wells were completed as potential gas wells and a third dry well was abandoned. This development has increased our total assets to $1.7 million. But perhaps more importantly, the reserves are now proven, not probable. Mera fully expects to further increase proven reserves when wells are drilled on the remaining 39 sections.

When Darwin comes on stream next spring it is expected to raise Mera's current production to 250 BOEPD, from our existing 50 BOEPD. That's five times what we currently produce!

Oil & Gas Assets
Equity Raised



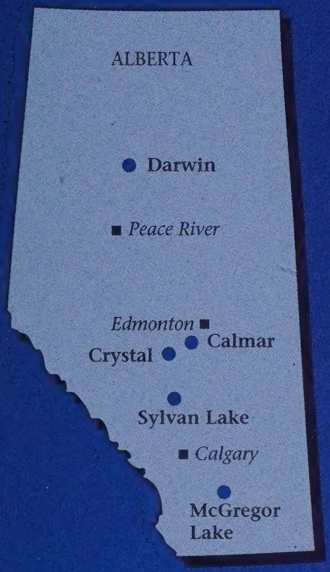
Land Acquisitions



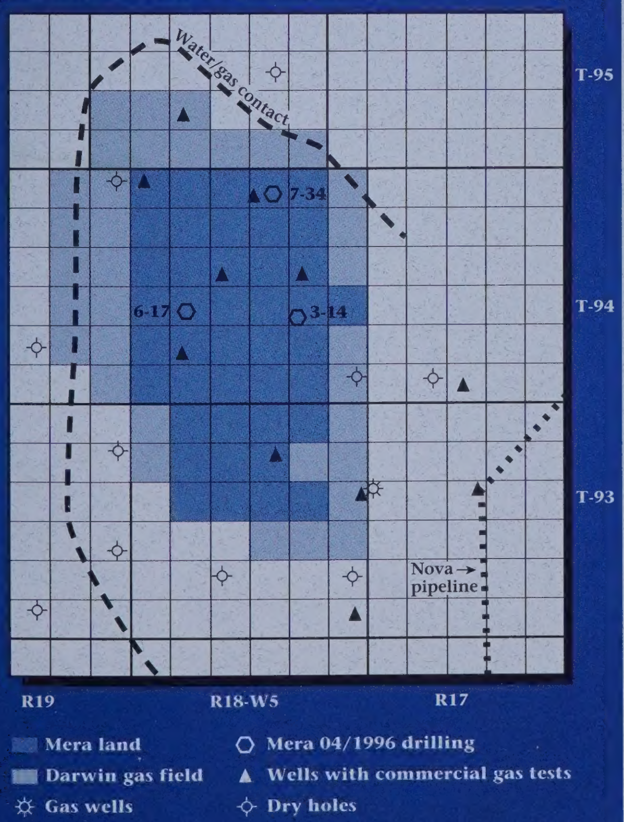
Considerable work was put into negotiating and consolidating our land position prior to the commencement of drilling activity. Mera initially purchased 15 sections, 10 from a major oil company. When the installation of a Nova pipeline, three and a half miles to the south-east of our land increased the viability of our project we further expanded our interests. Mera entered into an agreement with other Darwin stakeholders to expand our land holdings to 42 sections. Your company now owns varying working interests – from 12.5% to 100% – in a total of 27,000 Darwin acres.

Under the terms of the agreement up to four wells are drilled at no cost to Mera, one of which was drilled in the spring of 1996. After that your company is required to participate to a 20% to 40% working interest in any further drilling of the remaining Darwin lands.

To gear up for its share of costs for the winter 1996/97 multi-well development program, Mera will be pursuing another share offering this fall. Estimates are that Mera will need approximately $2.1 million to drill and complete another 10-20 wells, install a meter station on the nearby Nova line and construct gas processing facilities and pipelines to tie in our wells.



Darwin Gas Field



Calmar

Mera owns and operates 100% W.I. in four Nisku oil wells in Calmar. These four wells account for 75% of revenues and 67% of Mera's cash flow before G&A expenses, and have provided an excellent return on investment. Since initial purchase the wells have doubled in value.

Oil production remained stable – at 23 BOPD – throughout 1995. Mera's average selling price for its oil in 1995 was up slightly to $23.55 per barrel from $22.94 per barrel in 1994. This increase in oil prices has helped to offset soft gas prices.

Despite the reworking of the 8-31 and 13-35 wells in 1994/95, production declined to its original volumes. Management is currently negotiating the sale of one of its less productive Calmar wells.

Mera is also in the process of upgrading its facilities to meet new Alberta Utilities Board standards. This involves closing in a water tank, adding a vapor gathering system, fencing the main battery and installing a flare stack.

Crystal

Mera owns an 18.75% working interest in a Viking gas well at 2-4-47-3 W5. Since November 1, 1995 your company has been selling its own gas for $1.225 per mcf. Previously this gas was sold at spot prices, which offered an erratic return at best.

Minor Properties

Mera will continue to sell off its minor interests and concentrate on areas that will bring your company greater returns.

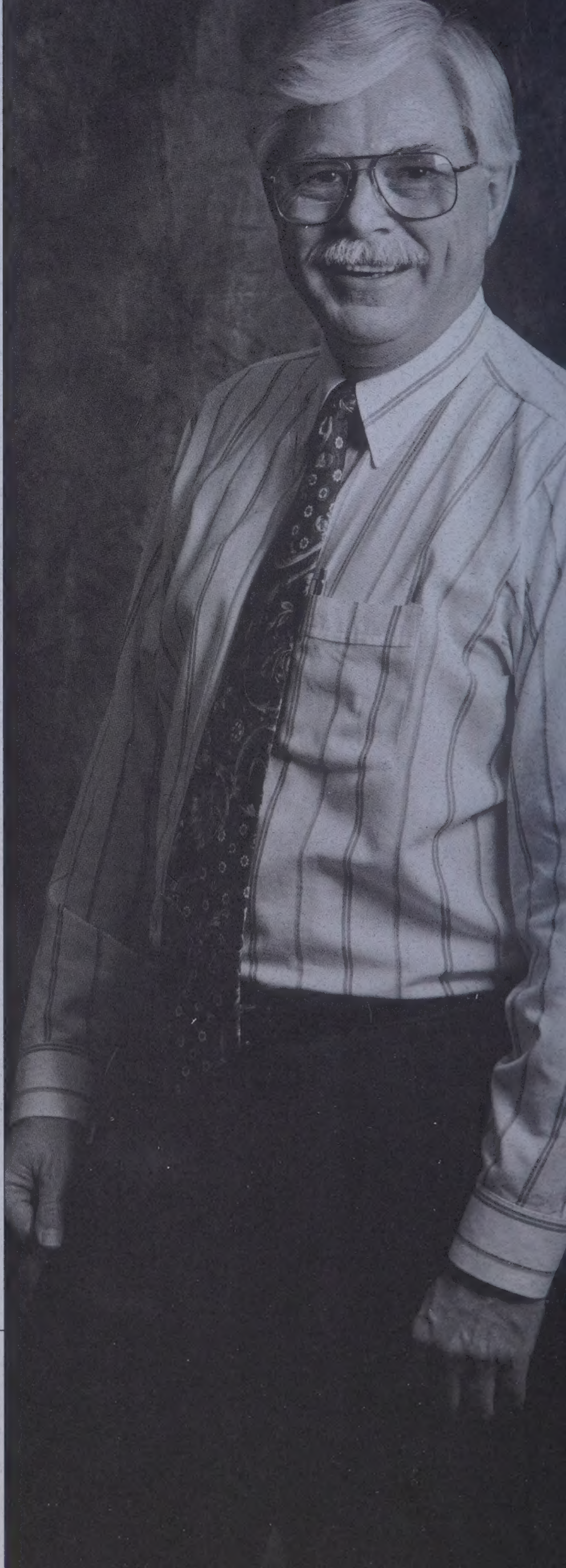
Sylvan Lake – Your company holds a 23% working interest and a 1.5% royalty interest in a shut in gas well, which is capable of producing at 300 MCFPD. Management is encouraging the operator to get this well on stream by the summer of 1996.

In 1995 Mera also participated in an unsuccessful re-completion of a second well on our Sylvan Lake property.

McGregor Lake – Your company holds varying interests in 20 producing gas wells in southern Alberta, which contribute approximately 10% of gas production revenue. Nineteen ninety-five has seen poor returns on these wells due to low gas prices.

Ghost Pine - Mera owns a five per cent interest in a 1.5 MMCFPD gas well in eastern Alberta, which provides a steady source of revenue.

Huxley – This well is expected to reach payout in the summer of 1996, at which time Mera will begin to receive revenues.



Phil Lawton

Director

Auditor's Report

To the Shareholders of Mera Petroleums Inc.

I have audited the balance sheets of Mera Petroleums Inc. as at December 31, 1995 and 1994 and the statements of operations and deficit and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1995 and 1994 and the results of operations and changes in financial position of the Company for the years then ended in accordance with generally accepted accounting principles.

M. H. Shaikh Professional Corporation

Calgary, Alberta
March 15, 1996

Chartered Accountant

Balance Sheets

As at December 31, 1995 and 1994

	1995	1994
ASSETS		
Current		
Cash	$ 45,495	$ 48,052
Accounts receivable	33,083	57,360
Prepaid expenses	2,874	2,734
	81,452	108,146
Capital assets (Note 3)	334,826	316,371
	$ 416,278	$ 424,517
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	$ 68,535	$ 36,394
Provision for site restoration costs	24,332	11,860
	92,867	48,254
Shareholders' equity		
Share capital (Note 4)	455,942	455,942
Deficit	(132,531)	(79,679)
	323,411	376,263
	$ 416,278	$ 424,517

Approved on behalf of the Board:

Director

Director

See accompanying notes

Statement of Operations and Deficit

Years Ended December 31, 1995 and 1994

	1995	1994
Petroleum and natural gas sales, net of royalties	$ 234,764	$ 180,265
Other	1,303	1,622
	236,067	181,887
Expenses		
Production	108,882	79,503
General and administrative	124,055	91,029
Amortization and depletion	46,327	54,260
Investor relations	9,655	13,579
	288,919	238,371
Net loss for the year	52,852	56,484
Deficit at beginning of year	79,679	23,195
Deficit at end of year	$ 132,531	$ 79,679
Loss per share	$ (0.02)	$ (0.02)

See accompanying notes

Statement of Changes in Financial Position

Years Ended December 31, 1995 and 1994

	1995	1994
Operating activities		
Net loss for the year	$ (52,852)	$ (56,484)
Add non–cash item:		
Amortization and depletion	46,327	54,260
Cash flow from operations	(6,525)	(2,224)
Net change in non–cash working capital	56,278	(34,995)
	49,753	(37,219)
Financing activities		
Issue of common shares	–	244,021
Share issuance costs	–	(2,650)
	–	241,371
Investing activities		
Capital expenditures	(77,310)	(357,629)
Proceeds on sale of capital asset	25,000	–
Reductions in deferred charges	–	6,243
	(52,310)	(351,386)
Decrease in cash during the year	(2,557)	(147,234)
Cash and term deposits at beginning of year	48,052	195,286
Cash and term deposits at end of year	$ 45,495	$ 48,052

See accompanying notes

Notes to the Financial Statements

For the Years Ended December 31, 1995 and 1994

1. Incorporation and operations

The Company was incorporated on April 29, 1993 under the Business Corporations Act (Alberta). Initially established as a Junior Capital Pool under the Alberta Securities Commission Policy 4.11, the Company graduated to the Alberta Stock Exchange's regular board upon acceptance of its major transaction.

The Company is involved in the exploration and development of petroleum and natural gas reserves in Western Canada. Effective April 29, 1994 the Company completed its major transaction with the acquisition of petroleum and natural gas properties.

Realization of the stated asset values is dependent upon future profitable operations or proceeds from their disposal.

2. Summary of significant accounting policies

The financial statements of the Company have been prepared in accordance with accounting principles generally accepted in Canada. The more significant of these accounting policies are the following:

a) Petroleum and natural gas properties

The full cost method of accounting is followed in accordance with the guideline issued by the Canadian Institute of Chartered Accountants for petroleum and natural gas properties, whereby all costs relating to the acquisition of, exploration for and development of petroleum and natural gas reserves are capitalized. Such costs include lease acquisitions, geological and geophysical activities, carrying charges on undeveloped properties, the drilling of productive and non–productive wells, and directly related overhead charges.

Costs are accumulated in one cost centre representing activity in Canada. Total capitalized costs plus a provision for future development costs of proven undeveloped reserves are depleted and amortized using the unit of production method, based on estimated proven oil and gas reserves as determined by independent engineers. For purposes of the depletion and amortization calculation, proven oil and gas reserves are converted to a common unit of measure on the basis of their approximate relative energy content.

Proceeds from the sale of petroleum and natural gas properties are applied against capitalized costs, with no gain or loss recognized except where the sale results in a change of 20% or more in the rate of depletion and amortization.

In applying the full cost method of accounting, capitalized costs including provision for necessary future development expenditures less depletion and amortization are restricted from exceeding an amount equal to the estimated undiscounted future net revenues from proven reserves, based on current prices and costs, less the aggregate estimated future removal and site restoration costs net of salvage values, development costs, general and administrative, financing and income tax costs derived from proven reserves, plus the lower of cost and estimated fair value of developed properties. Should this comparison indicate an excess carrying value, a write–down would be recorded.

Net operating revenue received by the Company between the effective acquisition dates and closing dates of the respective transactions are reflected as a reduction in the purchase price of the related petroleum and natural gas properties.

b) Future abandonment and site restoration costs

Estimated future abandonment and site restoration costs are provided for over the life of the proven reserves on a unit–of–production basis. Costs are estimated each year by management based on current regulations, costs, technology and industry standards. The annual charge is included in depletion and amortization expense and actual abandonment and site restoration expenditures are charged to the accumulated provision account as incurred.

Notes to the Financial Statements

For the Years Ended December 31, 1995 and 1994

c) Joint activities

Many of the exploration and production activities of the Company are conducted jointly with others and accordingly these financial statements reflect only the Company's proportionate interest in such activities.

d) Office furniture and equipment

Office furniture and equipment are recorded at cost less accumulated amortization. Amortization is provided at the following rates on a declining balance:

Computer hardware	30%
Furniture and equipment	20%

e) Per share data

Loss per share is calculated using the weighted monthly average number of shares outstanding (1995: 3,315,300; 1994: 2,816,968). Fully diluted loss per share is not disclosed as the effects of the assumed share purchase options as disclosed in Note 4(b) would be anti–dilutive.

3. Capital assets

	1995			1994
	Cost	Accumulated Amortization and Depletion	Net Book Value	Net Book Value
Petroleum and natural gas properties and equipment	$ 400,374	$ 72,070	$ 328,304	$ 308,668
Furniture and equipment	10,884	4,362	6,522	7,703
	$ 411,258	$ 76,432	$ 334,826	$ 316,371

The Company has excluded $38,835 (1994 – nil) worth of petroleum and natural gas properties from depletion since the amounts relate to unproven properties. These properties will be subject to depletion as exploration is completed.

On April 29, 1994, the Company acquired certain petroleum and natural gas properties from a corporation controlled by a director of the Company. The properties were valued at $78,000 as determined by independent engineers and, as consideration, the Company issued 390,000 common shares with a stated value of $0.20 per share. The transaction was effected pursuant to subsection 85(1) of the Income Tax Act whereby the Company and the Vendor elected on an agreed amount of $2,625 as the cost of the properties for income tax purposes. The Company has recorded the properties acquired and the shares issued on acquisition, at $43,446 being an amount net of the potential tax impact of the transaction. The acquisition was effective as of December 31, 1993 and the purchase price was adjusted for net operating revenue as described in Note 2(a).

During 1994, the Company acquired certain other petroleum and natural gas properties for a total consideration of $250,000 for which the Company paid cash of $210,000 and issued 100,000 common shares with stated value of $0.40 per share.

Notes to the Financial Statements

For the Years Ended December 31, 1995 and 1994

4. Share capital

a) Authorized

Unlimited number of common shares.

Unlimited number of preferred shares with rights, privileges and conditions to be determined by resolution of the Board of Directors.

b) Issued and outstanding

	Shares	Amount
Balance, December 31, 1993	2,083,000	$ 214,571
1994 – Private placement at $0.20 per share for cash	500,000	100,000
1994 – Issuance of shares for acquisition of petroleum and natural gas properties (Note 3)	490,000	83,446
1994 – Private placement at $0.25 per share for cash	242,300	60,575
1994 – Share issuance costs	–	(2,650)
Balance, December 31, 1994 and 1995	3,315,300	$ 455,942

At December 31, 1995, the Company has the following outstanding options to purchase common shares for directors and employees of the Company:

Number of Options	Exercise Price Per Option	Expiry Date
208,000	$0.20	May 31, 1998
110,000	$0.25	December 20,1999

Subsequent to December 31, 1995, 52,000 options to purchase common shares exercisable at $ 0.20 per option and 20,000 options exercisable at $ 0.25 per option were cancelled upon the resignation of a director. On January 30, 1996, a new director was appointed and options to purchase 52,000 common shares at $ 0.20 per common share were granted. These options expire January 31, 2001.

5. Income taxes

a) The Company has incurred income tax losses which are available to offset income from operations to the extent of $95,289. The value of these loss carry forwards has not been recorded in these financial statements. These losses expire in the following years:

2000	$ 27,254
2001	60,405
2002	7,630

Notes to the Financial Statements

For the Years Ended December 31, 1995 and 1994

b) The provision for income taxes differs from the result which would be obtained by applying the combined Canadian Federal and Provincial income tax rate of approximately 44.3% to loss before income taxes. The difference results from the following:

	1995	1994
Computed expected recovery	$ (23,413)	$ (25,022)
Increase (decrease) in taxes resulting from the following:		
Crown royalties, net of Alberta royalty tax credit	2,544	2,380
Non–deductible charges	20,863	(743)
Other	(3,374)	(3,374)
Losses for which no tax benefit is recorded	3,380	26,759
Provision for income taxes	$ –	$ –

6. Related party transactions

During 1995, $56,100 (1994 – $33,106) was paid to directors of the Company for management services. At December 31, 1995, an amount receivable for $2,707 from a company controlled by a director remains outstanding.

During 1994, the Company issued 390,000 common shares to a company controlled by a director as consideration for the acquisition of certain petroleum and natural gas properties and related equipment amounting to $43,446. Office furniture and equipment amounting to $7,000 were purchased from the same company in 1994.

7. Subsequent event

Subsequent to year end, the Company offered up to a maximum of 875,000 flow–through common shares through private placement at a price of $0.35 per common share for total consideration of $306,250. At March 15, 1996, none of these common shares have been issued.

8. Comparative information

Certain comparative information has been reclassified to conform with the current year's presentation.

Corporate Information

Directors

Robert D. McLeay, P.Geol.
President & Chief Executive Officer
Mera Petroleums Inc.
Calgary, Alberta

Donald R. Getty
President
Sunnybank Investments Ltd.
Edmonton, Alberta

Philip R. Lawton, C.A.
Chief Financial Officer
Hurricane Hydrocarbons Ltd.
Calgary, Alberta

Donald S. Conn
President
Triconn Production Systems Ltd.
Calgary, Alberta

Officers

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President & Chief Executive Officer

Donald S. Conn
Secretary

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Stock Exchange Listing

The Alberta Stock Exchange
Trading Symbol: **MPR**

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